

Contact Person	Fran Dunshee	Revision	1
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INTERNAL AUDIT MANAGEMENT OF CORRECTIVE ACTION PLANS

This Procedure statement articulates the process involved with the remediation of audit concerns as stemming from audit projects. Internal Audit works in conjunction with Line Management of the area reviewed to assure effective and timely remediation of the audit concern for the Laboratory. Line Management is entrusted with the overall responsibility of timely and effective remediation of concerns.

1.0 APPROVAL RECORD

Reviewed by: Document Control Coordinator (Amy Tehan)
Approved by: ESH&A Manager (Tom E. Wessels)
Approved by: Chief Operations Officer (Mark Murphy)
Approved by: Interim Director (Thomas A. Lograsso)
Approved by: Senior Vice President for Business and Finance, Iowa State University
and Chairman of the Ames Laboratory Operations Review Committee
(Warren Madden)

The official approval record for this document is maintained in the Training, Documents & Records Office.

2.0 REVISION/REVIEW INFORMATION

The revision description for this document is available from and maintained by the author.

3.0 PURPOSE

The purpose of this Procedure statement is to indicate the responsibilities and process for remediating concerns as found in the scope of work of Internal Audit at Ames Laboratory. Professional standards obligate appropriate tracking and timely verification by Internal Audit that corrective actions have been taken and are responsive to the audit concern.

Also, the responsibilities of other employees and management at Ames Laboratory, as related to facilitating this process are indicated. Internal Audit work, including the standard of appropriate follow ups, is required under contract. Relevant references and directives include:

1. Contract Clauses with the Department of Energy: DE-AC02-07CH11358
 - DEAR 970.5203-1 Management Controls
 - DEAR 970.5232-3 Accounts, Records and Inspections
2. The Cooperative Audit Strategy promulgated by the DOE as referenced in Acquisition Guide 70.4, "Cooperative Audit Strategy", as of March, 2004
3. Institute of Internal Auditors' *International Professional Practices Standards (IPPS)*
4. INTERNAL AUDIT CHARTER (Ames Laboratory)

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5. Federal Acquisition Regulations (FAR) and Department of Energy Acquisition Regulations (DEAR), as invoked in the prime contract with DOE; the most notable of which is FAR 31.205: Contract Cost Principles and Procedures, Selected Costs
6. Quality Assurance: DOE Order 414.1C

Internal Audit, as servicing Ames Laboratory, operates in accordance with the purpose, authority and responsibility indicated in the approved Charter. The Charter is approved by the Laboratory Director, as well as the Senior Vice President for Business and Finance of ISU, the Head of the Ames Laboratory Operations Review Committee (ALORC).

4.0 BACKGROUND STATEMENT

Actions are developed within the audit process as related to predetermined audit objectives. Audit objectives may cover different areas including:

- Accuracy and reliability of financial statements
- Review of costs incurred for allowability, allocability, and reasonableness to the mission under the prime contract
- Adequacy of the safeguarding of assets
- Compliance to contract and funding requirements
- Economy and efficiency with which resources are utilized.

As audit work is proceeding, certain standards are identified as relevant to the audit objectives as defined in the audit project. These standards may emanate from prime contract clauses, rules and regulations of the federal government, as applicable to the contract or policies and procedures of Ames Laboratory or the contractor, Iowa State University.

Conditions found in the audit are compared to the standards and if there is a significant or material discrepancy, an audit comment or “finding” may be appropriate. The significance or materiality of a condition involves auditor judgment, including consideration of impacts to the Ames Laboratory. If a condition is not deemed significant or material in the opinion of the auditor, a recommendation may not be warranted. The elements of the finding will generally include:

- A clear indication of the **Standard** to which the Condition is being compared
- The **Condition** found in the audit work
- Apparent **Cause** or causal factors of the Condition, using a root causal analysis technique and entering the root cause under the key word in the auto audit issue in order to enable trending analysis.
- The **Impact** or effect of the Condition (This may be in quantitative terms or, in some instances, qualitative terms.)
- The **Recommendation**.

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As conditions are found, they are discussed as soon as feasible with the personnel most directly responsible. At this time, various solutions or approaches to remediating the condition may also be discussed. Part of this process will include a “root cause” analysis to articulate the reason why the deficiency occurred. The “why” staircase technique will be utilized to further address the root cause, in order to provide a trending analyses subsequently, by type of causal reason. Subsequently, when the report is issued, management will be asked to articulate a Corrective Action Plan (CAP) to address deficiencies or concerns identified in the report. A request for a CAP will be issued at the same time that the report is issued.

This document is intended to provide guidance to management in helping them understand elements to be considered in the development of corrective action tasks, as well as the tracking and verification processes required by audit standards to close out audit concerns. In developing actions to address audit concerns, considerations may include further identification and analysis of the causal factors involved in leading to the condition. The identification of -and addressing of- causal factors may yield more complete and thorough remediation of the concern in order to avoid future deficiency. Responsive and effective actions are to be timely taken by management to audit concerns.

5.0 RESPONSIBILITIES

Line Management: As relevant to the area being reviewed, line management is responsible for providing a timely, responsive corrective action plan to Internal Audit within 10 business days of the request that adequately addresses all report recommendations. The elements of the CAP are indicated subsequently in this Procedure. An “Action Manager” provides the point of contact to coordinate with Internal Audit the action to be taken in response to the Audit recommendations. Also, the Action Manager is to provide timely updates on a quarterly basis on the status of corrective actions outstanding to Internal Audit. If line management has not adequately addressed corrective actions and an unacceptable level of residual risks to the Laboratory is the result, this is to be discussed with senior management.

Auditor III: The Auditor III provides for entry to the corrective action tracking system of the CAP elements. The Auditor III also requests timely status updates from the Action Manager on CAP tasks and completes audit verification tasks as relevant.

Manager, Internal Audit: Requests the CAP in response to the Audit Report, evaluates the CAP submitted for adequacy and full inclusion of all needed elements to assure effectiveness and value to the Laboratory. If the CAP appears responsive to the nature of audit concerns, the Manager accepts the CAP as adequate, pending verifications, as appropriate. As the verification tasks are completed by the Auditor III, the Manager provides direction, clarification and supervisory review as needed. The Manager notifies the Director of the Laboratory as to the status of corrective actions on a periodic basis, generally quarterly. As of 12/31/2012, members of the Ames Laboratory Operations Review Committee (ALORC), the Contracting Officer and the Manager, Ames Site Office (AMSO) will also receive the report. If line management has not adequately or timely addressed tasks in the CAP, the Manager of Internal Audit is to indicate this to the

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Director of the Laboratory, as well as to the Senior Vice President for Business and Finance of the Contractor, ISU.

Chief Operations Officer: The Chief Operations Officer (COO) timely follows up with any Action Managers under his purview of responsibility to facilitate timely action on corrective actions.

Director, Ames Laboratory: The Director of Ames Laboratory has the final responsibility and authority to determine the adequacy of the corrective action as communicated by Internal Audit. If all corrective actions have **not** been completed, the Director has the responsibility of the assumption of the residual risks to the Laboratory.

Senior Vice-President, ISU Business and Finance: The Senior Vice-President for Business and Finance is to be notified of substantive residual risks if management does not timely or adequately complete corrective actions.

6.0 PERFORMANCE

Issues and concerns impacting Ames Laboratory may be identified within the course of the audit process. To assure quality, effectiveness and timeliness in the remediation of these concerns, follow up is required by the profession. If actions are not deemed to be adequate relevant to the needs of the Laboratory, the Laboratory Director is to be notified, as well as other pertinent oversight offices of the risks that are being assumed by the Laboratory.

6.1 Guidance for Response and Development of Corrective Actions: Line Management

The following guidance is provided to direct, as applicable, the minimum rigor for the development of corrective actions, as relating to actions needed by Line Management and to be requested by Audit in the CAP request. This guidance is aligned to that of the Contractor Assurance System (CAS) Description Plan #40000.006, as effective 10/01/12, referencing Part 5.6:

1. Review the Standard against which the condition is being assessed.
2. Develop an understanding of the basis, scope (e.g., dollar impact) and cause of the deficiency, including the extent of conditions/causal factors that led to the deficiency.
3. Examine existing documentation of programs and practices related to the deficiency.
4. Provide a description of the proposed action(s) that will effectively resolve the issue(s).
5. Review resource needs for proposed action(s) with appropriate line management.
6. Designate a responsible individual and associated line management as points of contact for the corrective action. (This is the "Action Manager".)

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7. Establish a planned completion date for the corrective action, which allows adequate time to address the corrective action and ensures a timely response to the deficiency.
8. Develop or modify documentation for programs and practices related to the deficiency.
9. Include the causal factors of the deficiency in periodic trend analysis, such as Trend Analysis of ES&H Concerns (Procedure 10200.041).
10. Provide a general description of the mechanism used to verify the status of the corrective action, including any specific deliverables, which signify partial or total completion.
11. If appropriate, provide a general description of the mechanism used to verify the effectiveness of the corrective action.

If management does not agree with the audit comment, management is to indicate in writing the reasons why they are not in agreement.

NOTE: In some instances, if the corrective action is complex or elongated for example, it may be appropriate to provide granularity by articulating milestones or tasks to be completed within the corrective action(s), such that tracking and smooth completion of the tasks leading to the appropriate corrective action may be facilitated. Also, in some instances it may be appropriate to designate training and communication needs, such as training modules or intranet information, for educating appropriate personnel in the process that is being changed as a result of the corrective action(s).

6.2 Guidance for Entry and Tracking of Corrective Actions: Internal Audit

The following guidance is provided to direct, as applicable, the tracking of corrective actions.

- A CAP is requested from management at the end of the audit reporting process. Computer based systems are used for managing information related to deficiencies and corrective actions. Currently, Audit tracks recommendations from the reporting process in a software system for all audit tracking issues ("CA5") and also within the specific audit project ("Auto Audit") workpapers.
- The CAP document request is to request specifics relevant to the identification of "deliverables", if applicable, resulting from the corrective actions that will be subject to audit verification to close the tracking item. Also, specific due dates and timelines are to be requested.
- The Audit Manager reviews the proposed actions within the CAP. If the CAP is not clear relative to identification of the Action Manager, the nature of the deliverable, the verification process or the date due, this information will be clarified in consultation with management. In any case, each corrective action will be assessed relative to the nature of the verification action by Audit that will be appropriate.
- As needed, Audit is to discuss with the Action Manager (AM) and confirm to the AM what records and documents and the timing thereof will be needed to

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vouch that the corrective action indicated was taken as responsive to the audit recommendation.

- When all elements of the CAP have been clarified, the Auditor III enters the relevant information to the audit tracking system and to the audit project workpapers.
- For the audit tracking system, “CA5” software:
 - Generally, the first two digits of the Agreement are to represent the fiscal period in which the audit comment originated, the second two digits the audit project number within the Annual Plan, the next two digits represent the order of the recommendation within the report and the final two digits recommend the order of the tasks to complete the action, as indicated within the action plan. (A hypothetical example: the Audit Plan for FY 2010, has six audits listed. Relative to the report for the third audit project and related to the fifth recommendation in the report, there are five tasks submitted by management to address the close out of the recommendation. The number of the fifth action would be 10.03.0505.) Also:
 - The “Date Opened” should be the date that the Report, from which the corrective action is emanating, was issued.
 - The Response from Management as well as the nature of the original audit recommendation and concern should be represented in the Agreement.
 - The verbiage on the entry of the Agreement should be sought and approved by the Audit Manager. Generally, the “Description” field of the Agreement should include a synopsis of the Recommendation and the Action Plan for the Recommendation.
 - The “Elements” tab should include the Standard, Condition, Cause and Impact, as per the “Issue” in Auto Audit. Auto Audit is the software package containing the electronic audit documentation (also known as “working papers”) of Audit.
 - The “Follow on Notes” should include the planned verification actions as per the CAP and any confirming discussions.
 - The “Date Due” is to be that as per the CAP; that is, as indicated by management.
- If management subsequently requests an extension to the “Date Due”, there should be a reason given for the extension that is reasonable in nature.
- For the audit project workpapers, enter the proposed action by management and other relevant information for planned verification information, by Issue. The “expected completion date” is the date indicated by management to complete the action. The “follow up date” is the date by which audit verification

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is to be completed. The “Action Plan Status” field may contain the information on verification plans.

- If Audit has not heard anything from Management within 10 days of the date due for the task, the Auditor III will contact the Action Manager in written form and request a status update on the action to be taken.
- The Auditor III will obtain and include in the tracking system and in the audit project workpapers relevant, adequate and sufficient documentation to support the closure of an action item. Any clarifying discussions are also to be included in working papers.
- The Auditor III will consult with the Audit Manager as necessary if there are questions pertaining to the adequacy of the action taken as responsive to the audit concern.
- Five working days prior to the end of the quarter, the Auditor III will create an advance Extended Agreement List and save in a file from the software tracking all audit issues; this will be sent to the Audit Manager for review.
- The Chief Operations Officer will receive the list of outstanding Agreements approximately one month prior to quarter end to facilitate his follow-up to Agreements outstanding.
- At the end of the quarter the outstanding Agreements will be sent to the Laboratory Director, the Senior Vice President for Business and Finance at ISU, members of the ALORC, the CO and the AMSO.

6.3 Guidance for Verification of Corrective Action Completion

The following guidance is provided to direct, as applicable, the verification of completion of corrective actions. It is noted that the appropriate line management is responsible for initial verification of completion of the corrective action and to timely inform Audit that they feel effective action has been taken to close the concern.

- As management notifies Audit, the verification work will be completed as arranged between Audit and Management.
- The Auditor III works with management to arrange a time and documents needed to verify the action.
- Generally, Internal Audit will verify the adequacy of the corrective action taken by management as responsive to the audit concern within 60 days of the notification by management that the action has been completed. If the action is

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complex, more time may be warranted to provide appropriate verification and closure of the tasks related to the audit concern.

- As questions arise, the Auditor III will consult with the Manager of Internal Audit to resolve questions on the adequacy of corrective action taken.
- When the Auditor III is satisfied that the actions have been adequate, notification is given to the Manager that the actions are to be closed. (Any questions the Audit Manager has are to be resolved at this time.) The Audit Manager approves the closure, as appropriate.
- After approval by the Audit Manager, the “close date” is entered as the date of the approval to close.
- Notification is sent to the line management that the actions have been closed.
- If the action is not adequate or management cannot or does not complete the corrective action timely, appropriate oversight officials will be notified, such that appropriate management is notified of the resulting assumption of risks by the Laboratory.
- In some instances, a separate follow up report to Ames Laboratory management may be issued if there were extensive recommendations in the audit area.